3 Reasons to Feel Uneasy About the Stock Market

Description

Global stock markets are rebounding, although investors' jitters remain. In the U.S. **JPMorgan's** CEO Jaime Dimon doesn't expect the equities market to correct or decline in the coming months. Other finance experts like Dimon predicts sustained economic recovery. They believe that even without the Biden administration's massive stimulus program and infrastructure spending, people can expect a post-virus economic boom.

The **S&P/TSX Composite Index** hasn't dropped below 19,000 since topping the level on April 5, 2021. Canada's primary stock market index is up nearly 10% year to date. The health care and energy sectors are the lead advancers with over 20% gains thus far.

However, according to DataTrek Research co-founder Nicholas Colas, their clients say the markets don't "feel right." The observations are that seeing capital markets go from distress to euphoria in short intervals. Some market observers cite weird quirks happening. We can name a few reasons why there's unease among investors despite the markets' healthy performance.

Unpredictable market

JPMorgan's CEO said the boom in the U.S. could last for years but cautions that markets can be unpredictable and some assets are in bubble territory. One money manager from Boston, Peter Andersen, notes the surge of retail traders who use the stock market as a gambling casino. Another analyst warned of cracks in the traditional ways of investing.

Inflation risk

Dimon also mentions a spike in inflation as a risk if the Feds move to cool the economy more quickly than expected. He said stock prices would be too high if it happens. Meanwhile, the Bank of Canada also warns of inflation. Statistics Canada reports that the annual inflation rate doubled to 2.2% in March 2021. The Bank of Canada sees faster economic growth. It now believes inflation will return to its sustainably 2% target by the second half of 2022, not 2023 anymore.

Interest rate hike

Governor Tiff Macklem appears to change his tune regarding maintaining an effective lower bound in interest rate. The Bank of Canada will reduce the level of bond purchases and might end its low-rate commitment. An interest rate hike can come as soon as 2022. Investors could shift to bonds if the yields improve.

Mitigate the risks

The utility sector has been a safe haven for income investors when the stock market is flaky. It would help if you had assets that can endure the fluctuations and keep you whole on the dividend payouts. Move your money into the utility space and invest in a defensive stock like **Emera** (TSX:EMA).

This $14.59 billion company engages in electricity generation and transmission on the east coast of Canada and New Mexico, and the U.S. seaboard. Besides the low-risk business model and rock-steady dividends, the beta score is low (0.21). Performance-wise, the utility stock's year-to-date gain is 7.29%.

Emera's total return over the last 28.72 years is 2,118.61% (11.40% compound annual growth rate). You can purchase the stock today at $57.35 and partake of the decent 4.42% dividend. It should be safe and sustainable, given the 65.48% payout ratio. With regulated rates and power demand growth, the business should endure for decades.

Many unknowns

The Bank of Canada is looking for a complete recovery, but it's not counting the chickens before they hatch, says Governor Macklem. The economic forecasts are encouraging, yet there are many unknowns. Thus, the stock market also stands on shaky ground for now.

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